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Compilation reports on financial statements included in certain prescribed forms; Statement on standards for accounting and review services 3

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Statement on Standards for Accounting and Review Services

Issued by the Accounting and Review Services Committee

December 1981

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AICPA American Institute of Certified Public Accountants

Compilation Reports on Financial Statements Included in Certain Prescribed Forms

1. The requirements of SSARS 1 and SSARS 2 are applicable when the unaudited financial statements of a nonpublic entity are included in a prescribed form. This statement amends SSARS 1 and SSARS 2 to provide for an alternative form of standard compilation report when the prescribed form or related instructions call for departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles.¹ This statement also provides additional guidance applicable to reports on financial statements included in a prescribed form.²

2. For purposes of this statement, a *prescribed form* is any standard preprinted form designed or adopted by the body to which it is to be submitted, for example, forms used by industry trade associations, credit agencies, banks, and governmental and regulatory bodies other than those concerned with the sale or trading of securities.

1. For purposes of this statement, reference to generally accepted accounting principles includes, where applicable, a comprehensive basis of accounting other than generally accepted accounting principles as defined in SAS 14, paragraph 4. Disclosure of the basis of accounting should be made when a comprehensive basis of accounting other than generally accepted accounting principles is used.

2. This statement amends SSARS 1 in four places. The following sentences are added to the end of paragraph 18 of SSARS 1:

Also, an accountant may be asked to compile financial statements included in a prescribed form that calls for departure from generally accepted accounting principles. SSARS 3 provides additional guidance, including an alternative form of standard report, applicable to such compilation engagements.

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A form designed or adopted by the entity whose financial statements are to be compiled is not considered to be a prescribed form. The terms *financial statement* and *nonpublic entity* are defined in paragraph 4 of SSARS 1, as amended.

3. There is a presumption that the information required by a prescribed form is sufficient to meet the needs of the body that designed or adopted the form and that there is no need for that body to be advised of departures from generally accepted accounting principles required by the prescribed form or related instructions. Therefore, in the absence of a requirement or a request for a review report on the financial statements included in a prescribed form, the following form of standard compilation report may be used when the unaudited financial statements of a nonpublic entity are included in a prescribed form that calls for departure from generally accepted accounting principles:

The (identification of financial statements, including period covered and name of entity) included in the accompanying prescribed form have been compiled by me (us).

My (our) compilation was limited to presenting in the form prescribed by (name of body) information that is the representation of management (owners). I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of (name of body), which differ from generally accepted accounting principles. Accordingly,

The following sentence is added to the end of footnote 7, paragraph 19 of SSARS 1:
However, see SSARS 3 for guidance when such financial statements are included in a prescribed form and the prescribed form or related instructions do not request the disclosures required by generally accepted accounting principles.

The following is added as the penultimate sentence of paragraph 39 of SSARS 1:
SSARS 3 provides guidance when the departure is called for by a prescribed form or related instructions.

The following is added as a footnote to the last sentence of paragraph 5 of SSARS 1:
SSARS 3 permits an accountant who has reviewed the financial statements of a nonpublic entity to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles.

This statement also amends SSARS 2 by adding the following sentence to footnote 3, paragraph 2:

See SSARS 3 for additional guidance when the accountant compiles comparative financial statements included in a prescribed form that calls for departure from generally accepted accounting principles or, where applicable, from a comprehensive basis of accounting other than generally accepted accounting principles.

these financial statements are not designed for those who are not informed about such differences.

- 4.** If the accountant becomes aware of a departure from generally accepted accounting principles other than departures that may be called for by the prescribed form or related instructions (see paragraph 1), he should follow the guidance in paragraphs 39 through 41 of SSARS 1 regarding such departures. (The sentence introducing the separate paragraph of his report disclosing the departure might read as follows: "However, I did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.") If the accountant becomes aware of a departure from the requirements of the prescribed form or related instructions, he should consider that departure as the equivalent of a departure from generally accepted accounting principles in determining its effect on his report.
- 5.** The accountant should not sign a preprinted report form that does not conform with the guidance in this statement or SSARS 1, as amended, whichever is applicable. In such circumstances, the accountant should append an appropriate report to the prescribed form.

The statement entitled Compilation Reports on Financial Statements Included in Certain Prescribed Forms was adopted by the assenting votes of fourteen members of the committee, of whom five, Messrs. Browner, Carter, Cohen, Holton, and Nemiroff, assented with qualification. Mr. Braun dissented.

Messrs. Browner, Carter, Holton, and Nemiroff approve the issuance of this statement, but qualify their assent because they believe that it is improper for an accountant to issue a compilation report on a prescribed form stating that he has not reviewed the financial statements included in that form when he has reviewed financial statements for the same date or covering the same period, unless he refers to that previous report.

Mr. Cohen approves the issuance of this statement, but qualifies his assent because he believes that only those prescribed forms that could serve the purpose of providing information to potential investors should include an accountant's report. Special-purpose prescribed forms that are required by some governmental, regulatory, or judicial bodies do not ask for or make provisions for an accountant's report, and Mr. Cohen believes whether or not to report should be left to the accountant's discretion.

Mr. Braun dissents to the issuance of this statement. He agrees that guidance for reporting on financial statements in prescribed forms may be useful, but believes that mandatory reporting is an unnecessary and onerous requirement being imposed upon nonpublic entities selecting review or compilation services. Mr. Braun believes the critical issue is the SSARS 1 definition of financial statements, and he disagrees with the conclusion reached in paragraph 1 that SSARSs 1 and 2 are applicable when unaudited financial statements are included in a prescribed form. He believes there is no distinction between preparing a tax return and preparing other forms prescribed by regulatory agencies and, accordingly, that preparation of prescribed forms should be considered "other accounting services" not covered by SSARSs 1 and 2.

Mr. Braun also believes that it is improper for an accountant to issue a compilation report on a prescribed form stating that he has not reviewed the financial statements when, in fact, he has reviewed them. He believes this assertion is in violation of paragraph 5 of SSARS 1, which requires an accountant to "issue the report that is appropriate for the highest level of service rendered."

Accounting and Review Services Committee (1980–1981)Robert D. Miller, *Chairman*

Herbert S. Braun

Paul Browner

Richard J. Burgess

John A. Carter

Raymond J. Clay, Jr.

Harold Cohen

Kenneth J. Dirkes

Thomas F. Frey

Carl P. Gross

Stephen D. Holton

Alvin Martin

Arthur R. Nemiroff

Edward L. Recker

Glenda L. Rhodes

Thomas P. Kelley*Vice President - Technical*

George Dick

Director - Technical Information

Jack Shohet

Manager - Technical Information

Note: *Statements on Standards for Accounting and Review Services are issued by the AICPA Accounting and Review Services Committee, the senior technical committee of the Institute designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity. Council has designated the AICPA Accounting and Review Services Committee as a body to establish technical standards under rule 204 of the Institute's Rules of Professional Conduct. Rule 204 requires adherence to those technical standards and requires that members be prepared to justify departures from them.*

